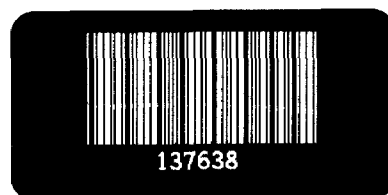


December 1988

---

**FINANCIAL AUDIT****Federal Asset  
Disposition  
Association's 1987  
Financial Statements**

---

About Our New Cover...

The new color of our report covers represents the latest step in GAO's efforts to improve the presentation of our reports.

Comptroller General  
of the United States

B-231275

December 29, 1988

To the President of the Senate and the  
Speaker of the House of Representatives

This report presents the results of our review of the independent certified public accountant's audit of the Federal Asset Disposition Association's (FADA) financial statements for the year ended December 31, 1987. In the auditor's opinion, subject to the uncertainty of the reasonableness of the asset management fee income as explained in the opinion, FADA's statements are fairly presented. The independent auditor's reports on FADA's internal accounting controls and on its compliance with laws and regulations are also provided.

FADA is a wholly-owned subsidiary of the Federal Savings and Loan Insurance Corporation (FSLIC), which holds all of FADA's stock. The Federal Home Loan Bank Board chartered FADA in 1985 as a federal savings and loan association under section 406 of the National Housing Act of 1934. The purpose of FADA is to manage and dispose of real estate assets of financially troubled savings and loan associations in the FSLIC system. As an agent serving on behalf of receivers, FADA does not take title to assets it manages, but it does have fiduciary responsibilities related to those assets. FADA's primary income is derived from fees charged for services it provides to the FSLIC and various FSLIC receiverships.

In accordance with Federal Home Loan Bank Board regulations, FADA contracted with an independent certified public accounting firm, Peat Marwick Main & Co., for an audit of its 1987 financial statements. Section 403 of Public Law 100-86, the Competitive Equality Banking Act of 1987, provides that the Comptroller General perform financial audits of FADA on whatever basis he determines to be necessary. To fulfill our audit responsibilities, avoid duplication and unnecessary expense, and make the most efficient use of our resources, we reviewed the independent auditor's work and reports for the year ended December 31, 1987. We did not review the auditor's work pertaining to the period November 5, 1985 (date of inception), to December 31, 1986.

We conducted our review of the auditor's work in accordance with generally accepted government auditing standards. To determine the rea-

sonableness of the auditor's work and the extent to which we could rely on it, we

- reviewed the auditor's approach and planning of the audit;
- evaluated the qualifications and independence of the audit staff;
- reviewed the financial statements and auditor's reports to evaluate compliance with generally accepted accounting principles and generally accepted government auditing standards; and
- reviewed the auditor's working papers to determine (1) the nature, timing, and extent of audit work performed, (2) the extent of audit quality control methods the auditor used, (3) whether a study and evaluation was conducted of the entity's internal accounting controls, (4) whether the auditor tested transactions for compliance with applicable laws and regulations, and (5) whether the evidence in the working papers supported the auditor's opinion on the financial statements and internal accounting control and compliance reports.

## Peat Marwick Main & Co. Report

In the opinion of Peat Marwick Main & Co., subject to the effects on the 1987 financial statements of adjustments, if any, that might have been required had the outcome of an uncertainty in the asset management fee income estimation process been known, FADA's financial statements present fairly its financial position as of December 31, 1987, the results of its operations, and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis. FADA's fee income was computed using estimated values of certain assets it managed, and the management fee calculations related to such assets were to be adjusted later on the basis of final values determined by FADA and approved by FSLIC. This uncertainty continued through July 15, 1988, when FSLIC and FADA agreed to eliminate the adjustment mechanism. As a result, income for 1988 will not be subject to this same uncertainty. For more details on this matter, see our report, Financial Analysis: FADA's Preliminary and Final 1987 Financial Statements, GAO/AFMD-88-77FS, August 5, 1988.

Peat Marwick Main & Co. also reported a material weakness in FADA's procedures for assuring the full collection of revenues from the rental properties it manages on behalf of receivers. Although such revenues are directly remitted by FADA to the receivers and are not reflected in FADA's statements of operations, the independent auditor believed that FADA has a significant fiduciary responsibility to each receivership to effectively monitor the income producing properties under its control to ensure that all revenues have been received. Peat Marwick Main & Co.

---

recommended that FADA implement a monitoring system to ensure that (1) all income due from properties is being received either by FADA or the receivership and (2) remittances by property managers to the receiverships are evaluated for completeness and accuracy. FADA agreed with the recommendations and promised that procedures would be developed for tracking this revenue. FADA also stated that a computer system is being changed to better control and report revenues from FADA-managed properties.

Peat Marwick Main & Co. did not identify any noncompliance with applicable laws and regulations that could have a material effect on FADA's financial statements.

---

## Outlook for the Association

Subsequent to the issuance of the auditor's financial statement opinion, proposed legislation was introduced to terminate FADA. The proposed legislation, which would require FSLIC to revoke FADA's charter within 60 days after enactment, was introduced following the issuance of a staff report by the Committee on Banking, Finance and Urban Affairs, House of Representatives, questioning the need for FADA. Specifically, the bill would require FSLIC to (1) revoke FADA's right to manage or dispose of any asset, (2) assume control of the management or disposition of any asset being managed by FADA, and (3) liquidate the assets and assume the liabilities of FADA. However, the bill was not enacted, and the likelihood of such legislation being reintroduced and enacted by the 101st Congress is unknown.

In addition, we recently issued a legal opinion (B-226708, September 6, 1988) which concluded that FADA is a wholly owned government corporation for purposes of title 5 of the United States Code, notwithstanding that the Federal Home Loan Bank Board chartered FADA as a federal savings and loan association. We, therefore, further concluded that FADA employees are federal employees and that the Board acted improperly by not treating them as subject to the salary limitations of title 5, United States Code. The effect of this opinion on FADA's operations and ultimately its financial statements is unknown at this time.

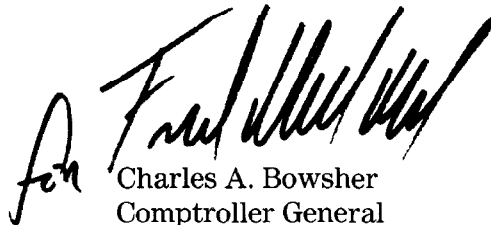
---

## Conclusions

During our review, we found nothing to indicate that the opinion of Peat Marwick Main & Co. on FADA's 1987 financial statements is inappropriate or cannot be relied on. Nor did we find anything to indicate that the auditor's reports on internal accounting controls and on compliance with laws and regulations are inappropriate or cannot be relied on.

We believe that the financial statements, together with Peat Marwick Main & Co.'s opinion and our review of that work, provide the Congress with a dependable basis for overseeing FADA's financial position. This report presents FADA's financial statements and the auditor's opinion thereon.

We are sending copies of this report to the Director of the Office of Management and Budget, the Secretary of the Treasury, the Chairman of the Federal Home Loan Bank Board, and the Board of Directors of the Federal Asset Disposition Association.

A handwritten signature in black ink, appearing to read "Charles A. Bowsher", is written over a horizontal line. To the left of the signature, the letters "fca" are handwritten vertically.

Charles A. Bowsher  
Comptroller General  
of the United States



---

# Contents

---

Letter	1
Auditor's Opinion	8
Auditor's Report on Internal Accounting Control	9
Appendix A—Material Weaknesses	11
Appendix B—Other Internal Accounting Control Matters	12
Auditor's Report on Compliance With Laws and Regulations	20
Financial Statements	21
Statements of Financial Condition	21
Statements of Operations	22
Statements of Stockholder's Equity	23
Statements of Changes in Financial Position	24
Notes to Financial Statements	25

---

---

## Abbreviations

FADA	Federal Asset Disposition Association
FSLIC	Federal Savings and Loan Insurance Corporation





# Auditor's Opinion

**Peat Marwick**

Certified Public Accountants

Peat Marwick Main & Co.  
Three Embarcadero Center  
San Francisco, CA 94111

The Board of Directors  
The Federal Asset Disposition Association  
San Francisco, California:

We have examined the statements of financial condition of the Federal Asset Disposition Association (the FADA) as of December 31, 1987 and 1986, and the related statements of operations, stockholder's equity and changes in financial position for the year ended December 31, 1987 and for the period November 5, 1985 (date of inception) to December 31, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As more fully described in note 1, the FADA is a wholly-owned subsidiary of the Federal Savings and Loan Insurance Corporation (FSLIC). The FADA is economically dependent upon and derives substantially all of its income from providing services (primarily asset management and advisory services) for the FSLIC and various FSLIC receiverships.

As discussed in note 3, approximately \$10,648,000 of asset management fee income recorded in 1987 by the FADA is based solely on contract terms applicable to fiscal 1987 billing calculations and was computed using the estimated values of certain assets managed by the FADA. Ultimately, the 1987 management fee calculations related to such assets will be recomputed on the basis of final values to be determined by the FADA and approved by the receiverships. At such time as the final asset values are resolved, billings to receiverships will be adjusted and related fee income adjustment amounts will be reflected in the then current operations. Due to the uncertainty inherent in the 1987 asset management fee income estimation process, the ultimate outcome of this matter cannot be presently determined.

In our opinion, subject to the effects on the 1987 financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, the aforementioned financial statements present fairly the financial position of the FADA at December 31, 1987 and 1986 and the results of its operations and the changes in its financial position for the year ended December 31, 1987 and for the period November 5, 1985 to December 31, 1986, in conformity with generally accepted accounting principles applied on a consistent basis.

*Peat Marwick Main & Co.*

March 30, 1988



Member Firm of  
Klynveld Peat Marwick Goerdeler

# Auditor's Report on Internal Accounting Control



Peat Marwick

Certified Public Accountants

**Peat Marwick Main & Co.**

Three Embarcadero Center  
San Francisco, CA 94111

Telephone 415 951-0100

Telex 62188300

703189

Telecopier 415 397-1129

## AUDITORS' COMMENTS ON INTERNAL CONTROL

### Board of Directors

The Federal Asset Disposition Association (the FADA):

We have examined the financial statements of the FADA as of and for the year ended December 31, 1987 and have issued our qualified auditors' report thereon dated as of March 30, 1988. As part of our examination, we made a study and evaluation of the FADA's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audits of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office. We identified management fees, corporate expenses, managed-asset disbursements and managed-asset income receipts as four significant internal accounting control areas. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the FADA's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole or on any of the control areas identified above. Also, our 1987 examination procedures were focused principally on internal accounting control and regulatory compliance matters we deemed to have a material financial statement impact. In this regard we did not perform an evaluation of the FADA's vendor selection/evaluation process, management fee structure, or marketing programs.

The FADA's management is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projections of any evaluation of the system to future periods is subject to the risks that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the FADA taken as a whole, or on any of the control areas identified in the first paragraph. However, our study and evaluation and our examination did disclose a condition that we believe to be a material weakness in internal accounting control. A material weakness in internal accounting control is a condition in which the specific control procedures or the degree of compliance with them do not reduce to a



Member Firm of  
Klynveld Peat Marwick Goerdeler

**Auditor's Report on Internal  
Accounting Control**

**Peat Marwick**

relatively low level the risk of errors or irregularities in amounts that would be material in relation to the financial statements being audited and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our observations and recommendations related to the identified material weakness in internal accounting control are set forth in Appendix A to this letter. Additional circumstances in 1988, as described below, were considered by us in preparing our observations and recommendations.

We have included in Appendix B, for your consideration, other observations and recommendations regarding internal accounting control matters which, individually, do not constitute material weaknesses in internal accounting control. Collectively, however, and based on the outcome of additional circumstances in 1988, as described below, these matters could contribute to an overall weakness in the FADA's control environment going forward if not properly addressed by management.

Our comments are based upon circumstances as they existed during 1987. We are aware of certain circumstances as of the date of this letter, however, which in combination may change significantly the operating environment which was in place during 1987, the scope of services provided by the FADA and, depending on the types of services actually provided in the future, the ongoing relevance of certain of our observations and recommendations. Such circumstances include:

- Revised asset management contracts for 1988 which provide that the asset accounting function may be transferred from the FADA to receiverships and that appraisal and legal services currently provided by the FADA may be transferred.
- Significant turnover in personnel, including a de facto suspension of the internal audit function.

Our observations and recommendations are based on knowledge of these circumstances and our findings in connection with the 1987 examination. Our comments have been prepared, however, on the basis that the FADA will continue to provide the range of services provided in 1987 and does not incur a significant reduction in managed-asset volume. Obviously, significant changes in the scope of services and/or managed-asset volume would impact the relative importance of such comments. Also, significant turnover of personnel, particularly in the accounting area, could negatively impact compliance with internal accounting controls in the future.

This report is intended solely for the use of management and appropriate regulatory agencies and should not be used for any other purpose.

March 30, 1988

*Peat Marwick Main & Co.*

Appendix A—Material Weaknesses

**Peat Marwick**

APPENDIX A

**Income Producing Property Operations**

Situation

Based on our inquiries and observations it appears that insufficient resource has been allocated to the process of ascertaining that all rental income related to FADA-managed properties has been received. Although most properties managed by FADA are not income producing, the potential revenues to the receiverships from income properties could be significant in the aggregate. FADA does not have in place an effective monitoring system to ensure that (1) income from a given property during the transition period when FADA first becomes manager of a property is being received either by FADA or directly by the receivership or that (2) property manager remittances are evaluated for completeness and accuracy, or compared against budgeted amounts. FADA has a significant fiduciary responsibility to each receivership in this regard.

Recommendations

We recommend that FADA consider implementing the following procedures:

- Verify and document, as soon as possible after assets come under FADA management, whether properties are REO and income producing and, if so, implement procedures to ensure that income for each period subsequent to the FADA management inception date has been accounted for;
- Improve the documentation standards regarding income producing assets, including the timely preparation of budgetary database information;
- Ensure compliance with established detailed review procedures related to property manager periodic operating statements, including actual results versus budget, mathematical verification of all data, adequacy of supporting documentation provided by property managers, and ensure that any apparent discrepancies are resolved and documented in a timely manner;
- Clearly define the responsibilities of asset management personnel in the regional offices and the asset accounting department regarding review procedures;
- Obtain and document clarification of the responsibilities of FADA and receiverships with respect to assets for which property manager remittances are forwarded directly to receiverships; and
- Increase the involvement of the internal audit department in the income property control and review function.

Benefit

Adherence to such procedures will more clearly define responsibilities and help ensure that receiverships receive all net revenues due to them related to their real estate assets.

Appendix B—Other Internal Accounting Control Matters

 Peat Marwick

APPENDIX B  
Page 1 of 8

Internal Audit Function

Situation


The internal audit department is severely understaffed at present. Departures and transfers to other departments in 1987 and 1988 have reduced the size of the department to a single, relatively junior level person. Given the nature of FADA's business and the need to monitor various activities very closely, the absence of an effective internal audit function for any extended period of time exposes the FADA to the risk of deterioration of compliance with established internal control and policy procedures and may create a material weakness in the general control environment of the organization.

Recommendation

The independent internal audit department function should be restarted as soon as possible with the addition of several internal audit personnel. The appropriate number of personnel will depend in large part, of course, on the planned activities for the organization i.e. the expected asset volumes, scope of services the FADA will provide, and FADA's responsibilities regarding asset dispositions and asset accounting and the EDP implications related thereto.

FADA's "Mission Statement" for the internal audit department sets forth key internal audit objectives and activities, including the following activities which we agree warrant considerable attention by internal audit:

- Examining the propriety and reasonableness of cash receipts and disbursements related to asset management activities;
- Assessing the adequacy of vendor and receivership contract documentation;
- Visiting properties under management and auditing the income producing property activities reported by property managers on a sample basis;
- Ascertaining adherence to FADA policies regarding the selection and evaluation of vendors;
- Examining managed-asset business plans on a test basis for compliance with FADA policy regarding appraisal details, evidence of review, and accurate timely flow of information to asset accounting and asset reporting departments;
- Evaluating the adequacy and effectiveness of EDP general and specific application controls; and
- Continuing to assist in the development of operating controls.

 Peat Marwick

APPENDIX B  
Page 2 of 8

Benefit

A strong internal audit department function would help ensure that FADA policies and procedures are adhered to and that corporate and fiduciary responsibilities are properly discharged.

**Management Fee Recomputation Procedures**

Situation

Our testwork and observations indicate that net realizable asset values, pursuant to approved managed-asset business plans and used as a basis for recomputing previous management fees billed under the 1987 asset management contracts with receiverships, are not always recorded by asset accounting in a timely manner. As a result, the subsequent billings on certain assets are preliminary until the new values are received and processed by asset accounting.

We understand also that net realizable values determined by FADA are sometimes modified pursuant to negotiations with receiverships. Such modifications sometimes are not properly documented.

Recommendations


Improved control procedures should be established at both the regional offices, where asset managers are involved in determining asset values and obtaining receivership approval of such business plan values, and asset accounting in San Francisco to ensure that such approved plan values are:

- documented properly and routed to asset accounting without delay in a controlled manner;
- input into the data system by asset accounting without delay; and
- compared to the values indicated on the actual approved business plan, with discrepancies adequately explained and documented.

We recommend also that FADA standardize its documentation procedures regarding modified net realizable values pursuant to negotiations with FSLIC receiverships.

Benefit

By implementing agreed upon asset values, as thoroughly reviewed, into the management fee system on a timely basis, FADA will help ensure that the periodic operating results properly reflect contract terms of the agreements with receiverships.

 Peat Marwick

APPENDIX B  
Page 3 of 8

### FSLIC Receivership Contract Compliance Matters

#### Situation

FADA's 1987 asset management contracts with receiverships required, among other things, that FADA would (1) provide business plans within a specified period of time and (2) provide periodic asset financial statements. In our 1986 letter to management we acknowledged FADA's difficulty in obtaining the requisite property information on a timely basis in some instances. We understand also that FADA's parent, the Federal Savings and Loan Insurance Corporation (the FSLIC) approved certain contract modifications during 1987 which linked business plan deadlines to appraisal completion dates. While we acknowledge FADA's desire and need to gain receiverships' cooperation if FADA is to prepare business plans in the quickest manner possible, we are informed that business plans pursuant to modified deadlines were not prepared on time in many instances.

FADA's new asset management contract with FSLIC, effective January 1, 1988, continues to require that FADA prepare business plans. The new contract specifies that business plans must be submitted to receivers within 60 days after the "access" date, as defined by the contract, unless a written extension of time is obtained from the receiver.

#### Recommendation

We recommend that monitoring control procedures be enforced to track closely the status of business plans (and related time extensions) and verification of complete insurance coverage.

#### Benefit

Improved tracking procedures will help ensure compliance with contract terms.

### Cash Receipts Processing Function

#### Situation

Although the results of our testwork related to the processing of incoming cash related to managed assets did not reveal any significant or recurring errors, we did note the following situations:

- Mail received in San Francisco each morning is opened under dual control. However, as additional deliveries are made throughout the day only one person processes such receipts;
- Mail opened under dual control involves a mail clerk and an asset accounting department person. However, asset accounting department personnel are also involved in both the recording of asset accounting information and the mailing of cheques to receiverships, each of which may be viewed as incompatible functions in terms of segregating duties related to the handling of cash. We are informed, however, that FADA does rotate its accounting personnel performing the mail opening function.
- A log of all cheques received is not prepared before the cheques are forwarded to the treasury department, thus creating a population control weakness regarding cheques received;



**AMM** Peat Marwick

APPENDIX B  
Page 4 of 8

- Although FADA's documented operating procedures stress the importance of clearing "hold items" (i.e. cheques received which cannot be related to a specific property/receiver) as quickly as possible and always within five days, we observed during our visit to the Dallas office that several hold items were much older;
- One cash receipt had been credited to the wrong receivership; and
- One cash receipt was not posted to the transaction register, which is the source document for monthly statements prepared for each receivership.

Recommendations

We recommend that FADA consider implementation of the following procedures and/or reemphasis of adherence to existing procedures in the cash receipts processing function:

- Consider whether there should be a second mail opening under dual control each afternoon;
- Both persons opening mail under dual control should be clerical, not asset accounting staff;
- At a minimum, the number of cheques received under dual control should be noted and the number compared by an appropriate person to the number of cheques actually processed into the system in order to further ensure that all items have been accounted for;
- Consider having cheques to receiverships mailed by the treasury department instead of asset accounting;
- Responsibility for clearing "hold items" quickly should be clearly established and documented procedures regarding the disposition of any such item not cleared quickly should be prepared and reviewed; and
- The importance of reviewing the allocation of all cash receipts to asset/receivership and ensuring that all items are recorded in the transaction register should be reemphasized.

Benefit

Implementation of these recommendations will further ensure that all cash receipts are properly recorded.

Peat Marwick

APPENDIX B  
Page 5 of 8

### Cash Disbursements Processing Function

#### Situation

As a result of our observations and testwork related to the processing of corporate and managed-asset disbursements, including employee reimbursements, we noted the following:

- Expense reports are not always submitted by employees on a timely basis. Because expenses related to airfares are paid directly to American Express by FADA pursuant to a master billing each month, timely submission of supporting documentation is necessary to ensure that billings are proper. We noted also that many of the suspense account items related to American Express card activity have not been cleared quickly; there appear to be old unresolved items reported by employees and not appearing on master billings as well as items appearing on master billings and not reported by employees;
- We are informed that during 1987 there were isolated incidences when the same reimbursable employee expense item was claimed twice. The circumstances resulting in such double payments were investigated and the matters resolved by FADA. In order to gain assurance that these were isolated incidences and to help prevent such errors in the future, we understand that FADA (1) re-examined expense reports of all senior management personnel (2) utilizes an invoice tracking system which helps "flag" employee expense items relating to the same day and appearing more than once and (3) changed its procedures regarding the required form of supporting documentation for expense claims.

#### Recommendation

- We recommend that the airfare suspense account be reconciled on a timely basis and all items should be resolved in a timely manner. Employee expense claims should also be submitted on a timely basis in order to facilitate the account reconciliation and billing processes.

#### Benefit

Implementation of this recommendation will further ensure that cash disbursements relate to appropriate items.

**AFMD** Peat Marwick

APPENDIX B  
Page 6 of 8

### **Payroll Processing Function**

#### Situation


We understand that payroll adjustment forms, reflecting salary adjustments and new/departing employees, are reviewed by an appropriate person before such forms are forwarded to a third party payroll processor. However, such review is not documented. We understand also that payroll cheques are delivered to the persons preparing the adjustment forms.

#### Recommendations

We recommend that the payroll adjustment forms be initialed by the reviewer and that FADA consider instructing the payroll processor to return any forms not initialed. We recommend also that the preparer of such forms also sign the forms and that payroll cheques be forwarded from the third party processor directly to human resources personnel for distribution to employees.

#### Benefits

Documentation of the review process helps to ensure that a control procedure is being performed. Clear indication of the preparer facilitates clarification of any questions regarding the data. Preventing the preparer of adjustment forms from handling payroll cheques further segregates duties, thereby strengthening controls over payroll processing.

 Peat Marwick

APPENDIX B  
Page 7 of 8

**Other Accounting Matters**

Situation

Receivership bank accounts used for cash disbursements are not individually maintained on the general ledger and the bank reconciliations performed by FADA personnel are based on "book amounts" as per a separate cash book and not the actual combined overdraft account balances.

We noted also that bank statements related to accounts used by property managers for depositing rental receipts are not received directly by FADA. Such bank statements also do not always accompany the operating statements forwarded to FADA by property managers.

Recommendations

We recommend that the periodic bank reconciliation procedures compare bank balances to the general ledger and that any general ledger/cash book differences be resolved on an ongoing basis. We recommend also that a reconciliation between the bank overdraft balances pursuant to cash disbursements and the offsetting reimbursable expense receivable balances be performed. The reconciliation process may be made easier if a general ledger account is established for each of the receivership bank accounts.

We recommend also that FADA receive directly the bank statements related to property manager rental deposit accounts and that the activity per the statements be compared to property manager operating statements.

Benefit

Implementation of these procedures would further enhance controls over cash and increase the control over property manager activities.

Situation

FADA does not document its review of lease transactions for purposes of determining whether such leases should be accounted for as operating leases or capital leases.

Recommendation/Benefit

We recommend that any new leases be formally documented as to appropriate lease classification, and that such procedures be incorporated into FADA's Procedures Manual, thereby ensuring that lease activity is recorded in the financial statements in accordance with generally accepted accounting principles.

**ANALYSIS** Peat Marwick

APPENDIX B  
Page 8 of 8

### **Record Retention and Control Function**

#### Situation

We noted the following record retention and/or control matters during the course of our examination:

- FADA does not have a formalized record retention policy covering all significant documentation;
- The Dallas office does not use the bar code checkout system which is intended to provide improved document control. Also, not all files are secured in a locked room during non-business hours; and
- Federal Home Loan Bank Board regulation stipulates that books and records be maintained at the home office (Denver). Such FADA records are maintained in San Francisco. We understand that the Federal Home Loan Bank of Topeka is aware of this situation and has not mandated any action by FADA.

#### Recommendations/Benefits

We recommend the following:

- Development of a formal record retention policy, thereby helping to ensure that appropriate documents will be available for future reference.
- Reconsideration of Dallas office use of bar code checkout system and the development of procedures for a periodic counting of sensitive documents indicated as being on file; also, consideration of placing all sensitive files in a locked room during non-business hours; and

### **EDP Disaster Recovery Plan Approval**

#### Situation

FADA has developed a disaster recovery plan related to its EDP operations. However, this plan has not been formally approved by the Board of Directors.

#### Recommendation/Benefit

We recommend that an EDP disaster recovery plan be formally approved, thereby helping to ensure continuity of operations in the unlikely event of a major disaster affecting EDP operations.

# Auditor's Report on Compliance With Laws and Regulations



Peat Marwick

Certified Public Accountants

Peat Marwick Main & Co.

Three Embarcadero Center  
San Francisco, CA 94111

Telephone 415 951-0100

Telex 62188300

703189

Telecopier 415 397-1129

## AUDITORS' REPORT ON COMPLIANCE

Board of Directors  
The Federal Asset Disposition Association (the FADA):

We have examined the financial statements of the FADA as of and for the year ended December 31, 1987 and have issued our qualified auditors' report thereon dated as of March 30, 1988. Our examination was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audits of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The management of the FADA is responsible for the FADA's compliance with laws and regulations. In connection with the examination referred to above, we selected and tested transactions and records to determine the FADA's compliance with those laws and regulations for which noncompliance could have a material effect on the financial statements.

The results of our tests indicate that, for the transactions and records tested, the FADA complied with those laws and regulations for which noncompliance could have a material effect on the FADA's financial statements. With respect to the transactions and records that were not tested by us, nothing came to our attention to indicate that the FADA had not complied with such laws and regulations.

March 30, 1988



Member Firm of  
Klynveld Peat Marwick Goerdeler

# Financial Statements

## Statements of Financial Condition

December 31, 1987 and 1986

<u>Assets</u>	<u>1987</u>	<u>1986</u>
Cash (including interest bearing deposits: 1987, \$1,214,495; 1986, \$25,000)	\$ 1,553,521	158,103
Federal funds	-	9,100,000
Investment in U.S. Government and Federal Agency securities (approximate market value: 1987, \$4,856,562; 1986, \$9,759,000) (note 7)	5,017,314	9,818,506
Fees receivable:		
Asset management fees (notes 3 and 7)	6,607,339	997,893
Advisory fees (note 7)	187,350	135,744
Reimbursable expenditures receivable (notes 4 and 7):		
Receivership contracts	8,410,104	849,726
Advisory contracts	273,232	93,151
Accrued interest receivable	45,173	35,084
Property, equipment and leasehold improvements, net (note 5)	3,212,077	2,223,632
Leased property under capital lease, net (note 6)	510,467	-
Federal Home Loan Bank Stock, at cost (note 7)	424,100	48,000
Prepaid expenses and other assets	<u>570,957</u>	<u>166,805</u>
	<u>\$ 26,811,634</u>	<u>23,626,644</u>
<u>Liabilities and Stockholder's Equity</u>		
Short-term borrowings, including bank overdraft in 1987 of \$3,192,512 (note 7)	10,192,513	800,000
Other liabilities and accrued expenses	1,339,555	1,309,554
Obligation under capital lease (note 6)	521,412	-
Deferred rent payments	<u>333,677</u>	<u>78,493</u>
Total liabilities	<u>12,387,157</u>	<u>2,188,047</u>
Stockholder's equity (note 11):		
Preferred stock, no par value		
Authorized 500,000 shares; none issued	-	-
Common stock, no par value, stated value \$1,000 per share.		
Authorized 500,000 shares; issued and outstanding 25,000 shares	25,000,000	25,000,000
Retained deficit	<u>(10,575,523)</u>	<u>(3,561,403)</u>
Total stockholder's equity	<u>14,424,477</u>	<u>21,438,597</u>
Commitments and contingencies (notes 10 and 11)		
	<u>\$ 26,811,634</u>	<u>23,626,644</u>

See accompanying notes to financial statements.

## Statements of Operations

Year ended December 31, 1987 and period from November 5, 1985  
(date of inception) to December 31, 1986

	<u>1987</u>	<u>1985 and 1986</u>
Revenues:		
Asset management fee income (note 3)	\$ 20,388,274	1,343,067
Asset advisory fee income	1,318,665	291,951
FSLIC corporate fee income	<u>264,164</u>	<u>-</u>
Total revenues	<u>21,971,103</u>	<u>1,635,018</u>
Operating expenses:		
Compensation and related benefits (note 8)	18,173,911	3,363,527
Other professional services	1,978,396	558,605
Occupancy	1,884,601	318,566
Travel	1,343,698	468,299
Depreciation and amortization	923,952	94,268
Property and equipment rentals and supplies	886,903	366,829
Telephone	816,142	136,548
Executive search fees	644,137	244,463
Systems consulting	598,385	394,749
Legal services	453,820	149,384
Office supplies	453,679	161,362
Postage and delivery	366,332	44,884
Insurance	255,327	20,524
Other	<u>601,602</u>	<u>155,640</u>
Total operating expenses	<u>29,380,885</u>	<u>6,477,648</u>
Operating loss	7,409,782	4,842,630
Other income and expense:		
Interest and dividend income	974,983	1,281,833
Interest expense	(544,526)	(606)
Loss on sale of investment securities	(24,522)	-
Other expense	<u>(10,273)</u>	<u>-</u>
Loss before income taxes	7,014,120	3,561,403
Income taxes (note 9)	<u>-</u>	<u>-</u>
Net loss	\$ <u>7,014,120</u>	<u>3,561,403</u>

See accompanying notes to financial statements.



# Financial Statements

## Statements of Stockholder's Equity

December 31, 1987 and period from November 5, 1985  
(date of inception) to December 31, 1986

	<u>Preferred stock</u>	<u>Common stock</u>	<u>Additional paid-in capital</u>	<u>Retained deficit</u>	<u>Total</u>
Initial issuance of common stock	\$ -	25,000,000	-	-	25,000,000
Net loss from date of inception to December 31, 1986	-	-	-	(3,561,403)	(3,561,403)
Balances at December 31, 1986	-	25,000,000	-	(3,561,403)	21,438,597
Net loss, 1987	-	-	-	(7,014,120)	(7,014,120)
Balances at December 31, 1987	\$ -	<u>25,000,000</u>	<u>-</u>	( <u>10,575,523</u> )	<u>14,424,477</u>

See accompanying notes to financial statements.

## Statements of Changes in Financial Position

Year ended December 31, 1987 and period from November 5, 1985  
(date of inception) to December 31, 1986

	<u>1987</u>	<u>1985 and 1986</u>
Sources of cash:		
Additional short-term borrowings	\$ 9,392,513	800,000
Proceeds from stock issuance to FSLIC	-	25,000,000
Sales of Federal funds	9,100,000	-
Sale of investment securities	4,801,192	-
Increase in obligation under capital lease	521,412	-
Increase in other liabilities and accrued expenses	<u>30,001</u>	<u>1,309,554</u>
Total sources of cash	<u>23,845,118</u>	<u>27,109,554</u>
Uses of cash:		
Operating activities:		
Net loss	7,014,120	3,561,403
Items not providing (requiring) cash:		
Depreciation and amortization	(923,952)	(94,268)
Deferred rent payments, net	<u>(255,184)</u>	<u>(78,493)</u>
Cash used for operations	<u>5,834,984</u>	<u>3,388,642</u>
Purchase of investment securities	-	9,818,506
Purchase of Federal funds	-	9,100,000
Additions to furniture, equipment, capital lease, and leasehold improvements	2,422,864	2,317,900
Purchase of FHLB stock	<u>376,100</u>	<u>48,000</u>
Cash used for investment transactions	<u>2,798,964</u>	<u>21,284,406</u>
Increases in:		
Reimbursable expenses receivable	7,740,459	942,877
Asset management fees receivable	5,609,446	997,893
Prepaid expenses and other assets	404,152	166,805
Interest and other accounts receivable	10,089	35,084
Asset advisory and other fees receivable	<u>51,606</u>	<u>135,744</u>
Cash used for financing operating activities	<u>13,815,752</u>	<u>2,278,403</u>
Net increase in cash	1,395,418	158,103
Cash, beginning of period	<u>158,103</u>	-
Cash, end of period	\$ <u>1,553,521</u>	<u>158,103</u>

See accompanying notes to financial statements.

## Notes to Financial Statements

December 31, 1987 and 1986

(1) Organization and Significant Accounting Policies

The Federal Asset Disposition Association (the FADA), whose stock is wholly-owned by the Federal Savings and Loan Insurance Corporation (FSLIC), was chartered in 1985 under Sections 406(a) and (b) of the National Housing Act of 1934 to help financially troubled Thrifts manage and dispose of real estate assets, including loans, pursuant to asset management contracts with these Thrifts or, in most circumstances, the Thrift receivers. As agent serving on behalf of receivers, the FADA does not take title to underlying assets but does have the fiduciary responsibilities inherent in the agency function. The FADA derives substantially all of its income from providing services (primarily asset management and advisory services) for the FSLIC and various FSLIC receiverships and Management Consignment Programs.

The following accounting policies, together with those disclosed elsewhere in the notes to financial statements, represent significant accounting policies that the FADA follows in preparing its financial statements.

(a) Investment in Securities

Investment securities are stated at cost, adjusted for amortization of premiums or accretion of discounts. Interest and dividends on investment securities include interest earned on investment securities and dividends earned on stock of the Federal Home Loan Bank of Topeka. Amortization of premium or accretion of discount is accounted for over the term of each investment on a straight-line basis.

(b) Investment in Federal Home Loan Bank Stock

As a member of the Federal Home Loan Bank (FHLB) System, the FADA is required to acquire and hold a specified number of shares of the capital stock of the Federal Home Loan Bank of Topeka, Kansas. In addition, the short-term borrowing agreement between the FADA and the Federal Home Loan Bank of Topeka (note 7) stipulates that the FADA will purchase additional FHLB stock as short-term borrowings are made. The amount of stock held at December 31, 1987 satisfied both of the requirements as of that date.

(Continued)

THE FEDERAL ASSET DISPOSITION ASSOCIATION  
(a wholly-owned subsidiary of the FSLIC)

## Notes to Financial Statements

(c) Property, Equipment and Leasehold Improvements

Property and equipment are stated at cost less accumulated depreciation and amortization. Purchases of equipment are capitalized to the extent that the expenditures individually exceed \$350, except software for which the amount is \$450. Purchases of equipment between \$100 and \$350 are capitalized in annual pools. Separate pools are established for office furniture and equipment, and computer hardware and accessories. Purchases of supplies are charged to expense as incurred.

Depreciation of office property and equipment is computed on a straight-line basis over the estimated useful lives of the various classes of assets. The period used for depreciation of assets is based on the following table:

<u>Asset type</u>	<u>Capitalized cost</u>	<u>Estimated useful life</u>
<u>I. Assets individually capitalized</u>		
Furniture - new	\$350+	96 months
Furniture - used	\$350+	60 months
Office equipment	\$350+	60 months
Systems hardware	\$350+	60 months
Systems software	\$450+	36 months
<u>II. Assets capitalized in pools</u>		
Furniture - new or used	\$100+ less than \$350	60 months
Office equipment - new or used	\$100+ less than \$350	60 months
Systems hardware	\$100+ less than \$350	60 months
<u>III. Installation costs</u>		
Systems installation	\$1,000+	36 months

Leasehold improvements are amortized on a straight-line basis over the remaining term of the lease or the estimated useful life of the asset, whichever is shorter. Maintenance and repairs are charged to expense; improvements are capitalized.

(d) Fee Income and Reimbursable Expenses

Asset management and advisory fee income is accrued and billed monthly. Reimbursable expenditures in connection with the management of assets are recorded as receivables when paid by the FADA and are billed to receivers monthly. These third-party expenditures are not recorded in the FADA statements of operations. FADA management evaluates the collectibility of fee income and reimbursable expenses on an ongoing basis and deemed all related receivables as of December 31, 1987 to be collectible.

(Continued)

THE FEDERAL ASSET DISPOSITION ASSOCIATION  
(a wholly-owned subsidiary of the FSLIC)

## Notes to Financial Statements

(e) Collections on Behalf of Receivers

The FADA collects revenues in connection with income producing assets under management and remits such revenues directly to the receiver. The FADA generally does not collect or process loan payments related to assets under management.

(f) Start-up Costs

In 1986 the FADA incurred significant start-up costs, including fees in connection with the design and implementation on its asset accounting and reporting system software. These start-up costs have been charged to 1986 expense.

(g) Reclassifications

Certain of the 1986 financial statement amounts have been reclassified to conform to the 1987 presentation.

(2) Assets Under Management

At December 31, 1987 the FADA managed real estate assets, including loans and loan participations, on behalf of thirty FSLIC liquidating receiverships and two institutions in the FSLIC's Management Consignment Program (MCP). The total net book value of managed assets, per receivership and MCP records, was approximately \$4.3 billion at December 31, 1987 (\$1.5 billion at December 31, 1986), which unaudited amounts are not reflected in the accompanying statements of financial condition. The unaudited net book values are not intended to be indicative of current market values. These assets are located in all areas of the United States, with major concentrations in Texas (\$2.2 billion), California (\$.5 billion) and Florida (\$.5 billion). The assets under management include a significant number of assets subject to loan participation agreements. For participations in which the receiver or MCP is not the lead participant, the asset book value includes only the receiver's or MCP's percentage interest in the total asset.

From inception through 1987, the FADA effected dispositions and settlements of managed assets totaling approximately \$583 million, as shown in the following table (unaudited):

	(In millions) (unaudited)
Real estate sales (net sales value)	\$ 155
Loan sales and loan payoffs (net proceeds)	153
Loan restructures and settlements (book value)	275
	\$ 583

(Continued)

THE FEDERAL ASSET DISPOSITION ASSOCIATION  
(a wholly-owned subsidiary of the FSLIC)

## Notes to Financial Statements

(3) Asset Management Fees

The FADA manages and disposes of receivership and MCP assets for a fee. For the year ended December 31, 1987, this fee was calculated using .75% of the net realizable asset values per annum. For assets subject to participation agreements, asset management fees were calculated on 100% of the asset value in those instances when the receiver or MCP is the lead participant, and on the actual participation percentage when the receiver or MCP is the non-lead lender. Asset values initially assigned for fee calculation purposes are generally the receivership or MCP net book values, although the FADA in certain circumstances assigns a lower value for fee purposes. These values are subsequently adjusted, as are previous billings to receiverships and MCPs, to reflect net realizable values pursuant to appraisals and asset disposition plans, as approved by receivers and MCPs.

As of December 31, 1987, asset disposition plans had not been finalized for all assets under management. For such assets, the FADA generally records fee income on the basis of estimated net realizable values. As of March 1988, management estimates that, of total assets under management at year end 1987 of approximately \$4.3 billion (at unaudited net book value), 27% or approximately \$1.2 billion have approved net realizable values. Approximately \$10,648,000 of FADA's 1987 management fee income was recorded on the basis of estimated net realizable values for assets which did not yet have approved values. As additional net realizable values are determined for assets under management at December 31, 1987, income in future periods will be adjusted to reflect fee income as if the approved values were in place from the inception date of the management contract pertaining to the assets. It cannot presently be determined whether any such future adjustments will have a material impact on the accompanying financial statements.

In 1986, under the original asset management contracts with receivers prior to amendments adopted in May 1987, receivers generally were billed based on net book values. When net realizable values for assets were approved, management fee billings were adjusted to reflect the approved values prospectively from the date of approval.

A new FADA/FSLIC asset management contract, with an effective date of January 1, 1988 and signed in March of 1988, has changed the FADA asset management fee structure. Management fees will depend on the level of services provided, with a minimum base annual fee of .50% of agreed upon asset values. These values for new assets are to be determined within 60 days after FADA commences management of the asset. FADA will also be paid a disposition fee on assets. Such fee decreases each year a given asset remains under FADA management.

(Continued)

THE FEDERAL ASSET DISPOSITION ASSOCIATION  
(a wholly-owned subsidiary of the FSLIC)

## Notes to Financial Statements

The billing policy changes made under contract terms with the FSLIC and FSLIC receiverships and MCPs as between 1986, 1987, and 1988 do not represent changes in the consistent application of accounting principles but do affect the comparability of the financial statements.

Asset management fees receivable at December 31, 1987 and related management fee income include approximately \$4.4 million due from the FSLIC to compensate the FADA for legal and appraisal services provided by the FADA beyond the scope of the receivership and MCP contracts in force at year end 1987. The entire \$4.4 million was received in March 1988. Asset management fees receivable at December 31, 1987 also includes approximately \$.6 million related to FADA-managed assets having zero book values. This amount has been approved by the FSLIC and is payable by the individual receiverships and MCPs.

(4) Reimbursable Expenditures

In addition to management fees, the FADA is reimbursed by the various receiverships and MCPs for expenditures related to assets it manages. Such expenditures include all third party payments related to the assets under management, including subcontracted property management fees. Under the new 1988 contract with the FSLIC certain third party payments, including business plan preparation costs, which were reimbursable under the old contract, will be expensed by the FADA.

For the year ended December 31, 1987, the FADA billed receiverships and MCPs approximately \$53 million for reimbursable expenditures (approximately \$1.5 million for the period ended December 31, 1986).

(5) Property, Equipment and Leasehold Improvements

Property and equipment at December 31 is comprised of the following:

	<u>1987</u>	<u>1986</u>
Computer hardware and software	\$ 2,437,099	1,783,151
Furniture and fixtures	1,457,402	534,749
Leasehold improvements	<u>256,974</u>	<u>-</u>
	4,151,475	2,317,900
Less accumulated depreciation and amortization	<u>939,398</u>	<u>94,268</u>
	\$ <u>3,212,077</u>	<u>2,223,632</u>

(Continued)

THE FEDERAL ASSET DISPOSITION ASSOCIATION  
(a wholly-owned subsidiary of the FSLIC)

## Notes to Financial Statements

(6) Obligation Under Capital Lease

In 1987, the FADA entered into a five-year lease on data processing equipment that has been recorded as a capital lease and, accordingly, the asset is stated at cost of \$589,000 less accumulated depreciation of \$78,533. Depreciation is computed on a straight-line basis over the five-year lease period which is equivalent to the estimated useful life.

The following is a schedule by years of future minimum lease payments under capital lease together with the present value of the minimum lease payments as of December 31, 1987:

Year ending December 31:	
1988	\$ 139,068
1989	139,068
1990	139,068
1991	139,068
1992	<u>46,356</u>
Net minimum lease payments	602,628
Less amount representing interest	<u>81,216</u>
Obligation under capital lease	\$ <u>521,412</u>

(7) Short-term Borrowings

The FADA short-term borrowings of \$7.0 million at December 31, 1987 and \$800,000 at December 31, 1986 were drawn against a \$50 million open line of credit advance with the Federal Home Loan Bank of Topeka. The open line of credit advance is backed by a contract between the FSLIC and the Federal Home Loan Bank of Topeka under which the FSLIC has guaranteed repayment of up to \$50 million of Bank advances to the FADA. Under the terms of the contract, the repayment guarantee applies only to advances used for the purpose of funding operations in which the FADA has a legal agreement with the FSLIC in the FSLIC's capacity as receiver or conservator for an insured institution.

Under terms of the borrowing agreement between the FADA and the FHLB of Topeka the FADA is required to maintain qualifying collateral equal to 120 percent of outstanding borrowings. Qualifying collateral includes the FADA's investment securities and reimbursable expenditures and fees receivable. The FADA is required to maintain investment securities, in the possession of the FHLB of Topeka, equal to the greater of 20 percent of outstanding borrowings or 120 percent of such borrowings, as reduced by qualifying reimbursable expenditures and fees receivable.

(Continued)



THE FEDERAL ASSET DISPOSITION ASSOCIATION  
(a wholly-owned subsidiary of the FSLIC)

## Notes to Financial Statements

The FADA's FHLB stock is also pledged as additional collateral for borrowings from the FHLB of Topeka.

Interest is charged to the FADA on outstanding draws at the FHLB cost of funds rate, which was 7.625% at December 31, 1987 (6.750 percent at December 31, 1986). The line of credit arrangement is reviewed on an annual basis by the lender.

(8) Incentive Compensation and 401(K) Savings and Investment Plan

The FADA has established an incentive compensation plan for its key officers and managers. The plan is designed to add an incentive element to FADA management compensation packages. Awards under the plan are based on both individual performance and overall corporate performance. The maximum award as a percentage of base salary generally ranges from 15% to 50%. Award amounts are not linked to proceeds from asset disposition and must be approved by the Board of Directors. For the years ended December 31, 1987 and 1986, the FADA recorded incentive compensation expense totaling approximately \$300,000 and \$291,000, respectively.

The FADA established a 401(K) Savings and Investment Plan for its salaried employees in October 1986. Employer contributions required under the Plan include a minimum of two percent of each employee's compensation per annum. In addition to the minimum two percent contribution, the FADA matches 100 percent of employee contributions under the Plan, limited to four percent of employee compensation per annum. Employer contributions to the Plan vest with participants over time and become fully vested after three years of service. Compensation and related benefits expense in the accompanying 1987 statement of operations includes approximately \$560,000 related to the Plan.

(9) Income Taxes

The FADA has incurred net operating losses from inception through December 31, 1987. Accordingly, no provision for income taxes has been recorded. At December 31, 1987, the FADA had net operating loss carryforwards for tax purposes of approximately \$9.3 million (\$10.6 million for financial statement purposes). The net operating loss carryforwards are available to offset future Federal taxable income and expire, for Federal purposes beginning in the year 2001. Additionally, under new California legislation, 50 percent of net operating losses incurred in taxable years beginning on or after January 1, 1985 and ending January 1, 1992 are available for carryforward for California franchise tax purposes. Net operating losses from taxable years beginning in 1985 and 1986 may be carried forward to taxable years beginning in 1987, 1988 and 1989. Net operating losses incurred in taxable years beginning on or after January 1, 1987 may be carried forward to fifteen years.

(Continued)

THE FEDERAL ASSET DISPOSITION ASSOCIATION  
(a wholly-owned subsidiary of the FSLIC)

## Notes to Financial Statements

(10) Commitments and ContingenciesCommitments

At December 31, 1987 the FADA leased office space and equipment in headquarters and regional locations. Future minimum lease payments under the terms of existing noncancelable operating leases in excess of one year are as follows:

Year ending December 31:	<u>Office Space</u>	<u>Equipment</u>	<u>Total</u>
1988	\$ 2,037,153	415,367	2,452,520
1989	2,164,182	415,387	2,579,569
1990	2,018,763	377,146	2,395,909
1991	1,736,941	192,045	1,928,986
1992	807,907	27,058	834,965
Thereafter	<u>430,416</u>	<u>-</u>	<u>430,416</u>
	<u>\$ 9,195,362</u>	<u>1,427,003</u>	<u>10,622,365</u>

Contingencies

In its capacity as asset manager for FSLIC receiverships and MCPs, the FADA is a defendant (as is the FSLIC and/or FSLIC receiverships and MCPs) in several pending and threatened litigation matters. Certain of these matters involve substantial claim amounts and were unresolved as of December 31, 1987. Pursuant to its contract with the FSLIC and FSLIC receiverships the FADA is indemnified by the FSLIC for losses and expenses, if any, resulting from such litigation in the event that the FSLIC in its capacity as receiver is deemed to have been grossly negligent or breached its fiduciary responsibilities. Although the asserted and unasserted claim amounts are significant, it is the opinion of management, after consultation with counsel, that the resolution of these matters will not have a material adverse impact on the FADA's financial position. Pursuant to terms of the revised asset management contract effective January 1, 1988, the FADA will be indemnified by the FSLIC for losses and expenses, if any, unless the FADA acts in a negligent manner.

The FADA is also involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with counsel, the ultimate disposition of these matters will not have a material adverse effect on the FADA's financial position.

In 1987 the House Banking Committee of the United States Congress initiated an investigation of the FADA organization. The Committee has not as yet issued a report on its findings. In the opinion of management, matters identified in any such findings would not have a material adverse impact on the FADA's financial position.

(Continued)

THE FEDERAL ASSET DISPOSITION ASSOCIATION  
(a wholly-owned subsidiary of the FSLIC)

Notes to Financial Statements

(11) FHLBB Regulations

Since the FADA is chartered under Section 406 of the National Housing Act, it is considered subject to Federal Home Loan Bank Board (FHLBB) Regulation. Such regulations govern the activities of Thrift Institutions and contain various financial requirements, e.g., that Thrifts maintain levels of regulatory net capital and investment in liquid assets, as defined by regulation. At December 31, 1987, the FADA's regulatory capital and investment in liquid assets exceeded amounts required by FHLBB regulation.

Because the FADA does not engage in traditional Thrift-oriented activities, management is in the process of investigating which FHLBB regulations pertaining to Thrifts should apply to the FADA.



---

**Requests for copies of GAO reports should be sent to:**

**U.S. General Accounting Office  
Post Office Box 6015  
Gaithersburg, Maryland 20877**

**Telephone 202-275-6241**

**The first five copies of each report are free. Additional copies are \$2.00 each.**

**There is a 25% discount on orders for 100 or more copies mailed to a single address.**

**Orders must be prepaid by cash or by check or money order made out to the Superintendent of Documents.**

---

**United States  
General Accounting Office  
Washington, D.C. 20548**

**Official Business  
Penalty for Private Use \$300**

<p><b>First-Class Mail Postage &amp; Fees Paid GAO Permit No. G100</b></p>
--

---